



VOTE YES ON THE BISHOP MOTION TO INSTRUCT CONFEREES ON THE MEDICARE PRESCRIPTION DRUG BILL

*Would You Prefer \$174 Billion to be Used for HSSAs or
Closing the Coverage Gap for Seniors?*

Today, Rep. Tim Bishop (D-NY) will offer a motion to instruct conferees on H.R. 1, the Medicare Prescription Drug bill. **Democratic Members are urged to vote YES on the motion to instruct.** The Bishop motion would strike House-passed provisions that would establish new tax-free savings accounts (HSSAs) for medical expenses – which are a \$174 billion tax cut masquerading as help to the uninsured. These funds could be better used to close the enormous coverage gap for prescription drugs in the House GOP bill.

On June 26, the House had passed, on a mostly party-line vote of 237 to 191, H.R. 2596, the Health Savings and Affordability Act, which established Health Savings Security Accounts (HSSAs) – new tax-free personal savings accounts that can be used to pay for out-of-pocket medical expenses (it also renamed the existing Medical Savings Accounts as Health Savings Accounts (HSAs) and made them permanent.) According to the Joint Committee on Taxation, this bill would cost \$174 billion over 10 years. Individuals who are uninsured could use HSSAs – but employers could also offer HSSAs to employees, along with high-deductible insurance policies. Under a rule, this tax cut bill was then attached to H.R. 1, the Medicare prescription drug bill, and is now part of the prescription drug conference deliberations.

Following are talking points on why Democrats would prefer to use the \$174 billion that Republicans use for HSSAs and HSAs to instead close the coverage gap for seniors and disabled Americans in the GOP prescription drug bill.

- ! The House GOP Bill Has An Enormous Coverage Gap.** The House GOP prescription drug bill contains an enormous coverage gap. Under the bill, beneficiaries would buy their first \$250 worth of drugs without any federal help and then would pay 20 percent of their drug costs from \$251 to \$2,000 a year. The bill then requires beneficiaries to pay 100 percent of their drug costs that are between \$2,000 and \$4,900 a year (when catastrophic coverage kicks in.)
- ! 48 Percent of Medicare Beneficiaries Would Fall Into the Coverage Gap.** Under the House GOP bill, 48 percent of Medicare beneficiaries would fall into the coverage gap of \$2,000 to \$4,900 each year – meaning that almost 1 out of 2 seniors and disabled Americans would find themselves with no coverage for part of the year.

- ! **The Coverage Gap Means That Beneficiaries Are Paying Monthly Premiums But Getting Nothing For Part of the Year.** As a result of the coverage gap, many seniors and disabled Americans would find themselves in the outrageous situation of being forced to continue paying their monthly premium while receiving no coverage for their drug expenses. Indeed, under the GOP bill, a senior spending the average amount on prescription drugs each month will run out of coverage in August of each year.

- ! **The Coverage Gap Means That Coverage Disappears When Beneficiaries Need It Most.** With a coverage gap, a senior's prescription drug coverage would disappear precisely when seniors need it most – when their annual drug costs rise above \$2,000.

- ! **Seniors' Groups Strongly Oppose The Coverage Gap.** Seniors' organizations strongly oppose the coverage gap. For example, AARP has stated, *"Chief among [beneficiaries'] concerns is the gap in coverage. AARP believes...the coverage gap is simply bad policy, is unnecessarily confusing, and will prove to be a disincentive to enrollment."* Similarly, the National Committee to Preserve Social Security and Medicare has stated, *"We urge lawmakers to close the gaps in drug coverage. For many middle-income seniors, the gaps in coverage make the plan not cost-effective."*

- ! **The Coverage Gap Would Have A Severe Impact on the Millions of Beneficiaries Who Struggle on Limited Incomes.** There are many instances now where seniors on limited incomes have to choose between food and their prescription drugs each month. Under the GOP bill, many seniors would continue to face this dilemma – once they had fallen into the coverage gap. Many Medicare beneficiaries live on very limited incomes. Indeed, 43 percent of Medicare beneficiaries struggle to make ends meet on incomes below \$18,000 a year. The House GOP bill provides no subsidies for lower-income seniors who fall into the bill's huge coverage gap. Once a lower-income senior's drug costs reach \$2,000, they are on their own until they've spent \$4,900.

- ! **Seniors Consider The Coverage Gap The Worst Feature of the House GOP Bill.** The polls that have come out show that seniors consider the coverage gap the worst feature of the House GOP bill. Because of the coverage gap, seniors simply don't believe that the House GOP bill will make drugs affordable for them. In a USA Today/CNN/Gallup poll published on September 3rd, 43% of seniors believed the bill would have no effect on them; 27% said it would make things worse; and only 26% said it would improve their situation.

- ! **No Private Insurance Policy in America Has A Coverage Gap.** Furthermore, Medicare beneficiaries are well aware that there is no private insurance policy that has a coverage gap – which is why they are so outraged by this coverage gap. Private health insurance policies don't have coverage gaps; homeowner policies don't have coverage gaps; and auto insurance policies don't have coverage gaps. A private insurance company would never think of selling such a plan.

Finally, following are talking points on why the GOP tax-free personal savings accounts for medical expenses (the HSSAs and HSAs) – costing \$174 billion – are not a good investment.

- ! **These Tax-Free Savings Accounts Will Not Reduce the Number of Uninsured.** The sponsors of HSSAs and HSAs argue that they can help with the problem of the uninsured because those with no health insurance would be eligible to establish these tax-free accounts. However, these proposals are not designed to benefit the uninsured. Most uninsured have incomes that are too low to benefit in any meaningful way from a tax-free savings account for medical expenses. First of all, 36 percent of uninsured people have incomes under the poverty level – and would gain no benefit from a HSSA or a HSA because they owe no taxes. Furthermore, another 29 percent of the uninsured have incomes between 100 percent and 200 percent of the poverty level and they would get only minimal help from a HSSA or HSA. These low-income uninsured don't have \$2,000 or \$4,000 in cash to set aside for this purpose. Even if a low-income worker were able to put away some cash into a HSSA or HSA, this small subsidy wouldn't go far to pay for the high cost of health coverage – whether through an employer or in the individual private market. The average price of employer-sponsored family coverage was \$7,954 in 2002.

- ! **These Tax-Free Savings Accounts Will Also Make Workers Worse Off by Encouraging Employers to Shift to High-Deductible, Less Comprehensive Policies.** Health Savings Security Accounts (HSSAs) would encourage employers to move away from traditional health insurance plans – which include low deductibles and cover a wide array of comprehensive benefits – to less comprehensive, high-deductible insurance, where employees bear a greater proportion of health care costs. Under the GOP provisions, employers could offer these HSSAs as long as they are provided in conjunction with high-deductible health insurance policies; deductibles must be at least \$500 for individuals and \$1,000 for family coverage. It is likely that, as a result, employer-based health insurance with deductibles of \$1,000 or higher for family coverage would become widespread and could well become the norm. In addition, employers would also likely make their health insurance plans less comprehensive in other significant ways; for example, they could scale back the benefits covered and increase the copayments required, arguing that their workers could cover these increased out-of-pocket costs from funds in their tax-advantaged HSSAs. Hence, these GOP provisions would become a way for employers to shift their healthcare costs from themselves onto their employees.

Summary of Income-Relating Provisions in HR 1: *Talking Points Against the Flake Motion to Instruct*

Summary of HR 1 and Flake motion:

The House Republican bill “means tests” the protection against high drug costs by tying the level at which the benefits start to income. Thus, seniors who earn more than \$60,000 a year (\$120,000 for couples) will not receive stop-loss protection until they have spent considerably more on prescription drugs than other beneficiaries.

The Flake motion instructs conferees to retain the House bill’s policy. Further, it is written in a sufficiently vague manner so that one could interpret it to mean they want to put income thresholds on other parts of Medicare. This strikes at the heart of the social insurance nature of Medicare – where everyone pays in and everyone receives the same benefits.

Talking Points:

- The House Republican Medicare legislation, for the first time in the history of Medicare, taxes middle-class seniors twice for their benefits.
- Today, Medicare is available to all who are eligible – everyone pays the same percentage in payroll taxes and gets the same benefits out. All Americans who contribute taxes during their working years are eligible for the full package of Medicare benefits when they retire.
- The House Republicans, however, are taking the first steps to turn Medicare into a welfare program, making middle-class seniors pay more for their Medicare benefits. Under the Republican bill, seniors who have incomes above \$60,000 a year will see their catastrophic limit raised from \$5,100 up to as high as \$11,000, depending on their income.
- What this amounts to is an additional Medicare tax on middle-class seniors – who already paid more money in Medicare taxes during their working years because of their higher earnings. Now they are getting hit again through this drug benefit and are asked to pay another “tax” – to pay more money for their drugs than other seniors. They basically are paying twice for their benefits.
- The House Republicans have given trillions of dollars away in tax cuts to the wealthiest one percent of Americans – and now they want to raise taxes on middle-class senior citizens – by making them pay twice for their Medicare benefits.

Privacy implications

- It is unclear even how the provision in the House Republican bill is going to work – or whether it will even work.

- ▶ The Medicare Administrator will send the names of seniors to the IRS, the IRS will send back the seniors' income for the previous year. Medicare will then determine the benefit level, which is de facto a disclosure of income, and send this *very private* information to private health insurance companies. Seniors' confidential income information will be sent all across the country – a situation ripe for abuse.
- ▶ Medicare currently does not means test benefits and it does not have any staff to deal with this complicated matter. The Republican bill will increase government bureaucracy in *both* Medicare and the IRS to administer this provision. Under the Republican bill, Medicare is supposed to have a process for seniors who have seen their incomes decline to come in and get an adjustment (because we know seniors' incomes decline as they age), Medicare would need to be able to deal with millions of people coming in every year to have their income information reevaluated.
- ▶ Private plans will have a hard time administering this means-testing provision as well. They will have different benefit levels for every beneficiary who has an income above \$60,000.
- The provision to allow variable levels of coverage may also enable plans to cater to the cheaper, wealthier seniors.
- ▶ Once private insurance companies have income data on seniors, they can use it to selectively market their products to higher income seniors, who are likely to be healthier and use less health services.
- ▶ Private insurance companies will have incentives to seek out only higher income seniors to make their premiums lower. Because higher income seniors will have a higher catastrophic level, plan premiums will be lower (because the plan will be paying less of beneficiaries' drug costs). Seniors living in low-income areas may find that plans do not want to come there because these seniors will make the plan premiums more expensive.

Summary

- All in all, the provision in the House Republican bill is a bad idea, and it ought to be roundly rejected by the conferees. It is bad for Medicare, it increases government bureaucracy, it injects the IRS into Medicare, and it will be unworkable for plans and seniors.
- Republicans are trying to save money off the backs of middle-class seniors – and pursue an ideological agenda to undermine Medicare's universal nature.
- This misguided policy threatens the program's broad support and

popularity. It would fragment public support and confidence in Medicare, and make it easier to end the program once and for all.

- I urge my colleagues to reject the Flake motion that instruct the Medicare conferees to tie drug benefits to income.

The Credibility Gap: GOP Tax Cuts and Jobs



"My economic plan is summed up in one word: jobs."

President George Bush
Washington Post, 01/23/02



"The jobs and growth package will create more than 1 million new jobs."

House Majority Tom DeLay
Cong. Record, 5/22/03

For three years, the Bush Administration and the Republican Congress have promised that their tax cut plans would stimulate the economy and create jobs. Instead, the opposite has occurred. The Bush Administration and the Republican Congress have pursued policies that created what can only be described as an economic bust for the American worker.

- **Unemployment is up, opportunity is down.**
- **Poverty is up, income is down.**
- **Health care costs are up, the number of Americans with health insurance is down.**
- **Anxiety is up, prosperity is down.**

Republicans must be held accountable for promises made and not kept.

WHAT REPUBLICANS PROMISED:

"We believe strongly that the tax relief plan that was approved by Congress in '01, and most recently in '03, is going to have a **very positive effect on economic growth** and vitality."

- President George Bush [GOPUSA, 8/14/03]

"This administration is optimistic about job creation. As of this moment ... the [tax relief] plans we have in place are robust enough to **create jobs**."

- President George Bush [Reuters, 08/13/03]

"The '01 tax cuts affected the recession this way: It was a shallow recession. That's positive, because I care about people being able to find a job. You know, some have said, 'Well, maybe the recession should have been deeper in order for the rebound to be quicker.' My attitude is: A deeper recession means more people would have been hurt. And I view the actions we've taken as a **jobs program -- job-creation program**."

- President George Bush [AP, 08/03/03]

"The tax bill we passed is really good for the American economy and will make it **more likely somebody is going to find a job**."

- President George Bush [St. Paul Pioneer Press, 06/20/03]

"The principle of the bill is pretty simple. We believe the more money people have in their pockets, the more likely it will be that **somebody can find a job** in America."

- President George Bush [*CNN Money*, 5/22/03]

"For the sake of economic vitality, Congress has got to act and act boldly on this plan to get more of your own money back to you... I want there to be one thing on your mind when it comes to debating what's right or wrong. It's not politics. It's **helping people find a job** in the United States of America."

- President George Bush [CBS News, 5/13/03]

"With a robust package of at least \$550 billion in across-the-board tax relief, **we will help create more than a million new jobs**... Tax relief is good for families, and good for our entire economy. The jobs and growth plan I have proposed is fair; it is responsible; it is urgent. And Congress should pass it in full."

- President George Bush [CNN, 4/28/2003]

"The President's jobs and growth package will spur **real overall economic growth and create jobs**."

- White House Press Release [01/07/03]

"By speeding up the income tax cuts, we will speed up the **economic recovery** and the pace of job creation."

- President George Bush [BBC News, 01/07/03]

"My economic plan is summed up in one word: **jobs**. And that's what all of us in Washington ought to be asking: How do we create jobs for people who want to work in America?"

- President George Bush [Washington Post, 01/23/02]

"We think [the tax cut] is going to increase demand, and the end product will be **lots of new jobs**."

- Treasury Secretary John Snow [AP, 07/29/03]

"These tax cuts are front-loaded so the economy will get the biggest bang for the buck.... [W]e have a job to do. And **that job is to create jobs**. Vote for this bill. Vote to put the American people back to work."

- House Speaker Dennis Hastert [Cong. Record, 05/22/03]

"The jobs and growth package **will create more than 1 million new jobs**. It is not as large as some of us wanted; but I remind you, it is just the first step. All the American people need right now is the opportunity that they deserve, not the government, that they deserve. They deserve that opportunity to get this economy going again. So I urge my colleagues to do the right thing. Pass this jobs and growth package and give Americans that chance."

- House Majority Leader Tom DeLay [Cong. Record, 05/22/03]

"What we are doing is in this bill we are **creating jobs and growth** and opportunity... We can differ on what this bill is going to create in terms of the numbers of jobs, but I have not heard one economist say it is not going to create jobs. And that is what we are going to do in this bill, 1.2 million jobs. It is all about jobs. It is all about growth."

- Rep. Rob Portman [Cong. Record, 5/22/03]

"I am convinced that we have done the right thing. We are going to lay the groundwork to provide a tax-defined effort to **create jobs and growth in this country.**"

- Rep. David Dreier [Cong. Record, 05/22/03]

"Here we are today with a plan before us that has the potential to create 1.2 million jobs by the end of next year, a plan that would raise the total value of the stock market by at least \$550 billion...

[U]nderstand that right now we have the opportunity and the obligation to **create jobs and grow this economy.**"

- Rep. Deborah Pryce [Cong. Record, 5/9/03]

"The third thing that we needed to do, and we will do in this bill [Economic Recovery and Security Act of 2001], is to help amass capital in very crucial spots so that money will be invested in **creating jobs.** We do it in this bill."

- House Speaker Dennis Hastert [Cong. Record, 03/07/02]

H.R. 3090 [Economic Security and Recovery Act of 2001] is the right medicine for our economy. It is the best way to put people **back to work and create jobs.** This bill does that with incentives for business to create jobs and put America back to work."

- House Majority Leader Tom DeLay [Cong. Record, 10/24/01]

"The House passed a good growth tax bill. It will **put people back to work.** In fact, the analysis tells us it will put as many as 170,000 Americans back to work in its first year alone."

- Former Rep. Dick Armey [Cong. Record, 11/14/01]

WHAT REPUBLICANS DELIVERED:

- **3.3 Million Jobs Lost:** Under President Bush, 3.3 million jobs have been lost, 2.5 million of which were manufacturing jobs – the worst record since the Great Depression.
- **Rise in Poverty:** In 2002, the poverty rate increased for the second consecutive year as 1.7 million more people became poor. Now more people than ever – 34.6 million – live in poverty.
- **More Americans Uninsured:** The ranks of the uninsured swelled by 2.4 million last year as insurance costs kept rising and more Americans lost their jobs and health care coverage. The number of people without health insurance the entire year rose to 43.6 million, a jump of almost 6% from 2001 and the second consecutive annual increase.
- **Household Income Declines:** In 2002, median household income fell for the third straight year, to \$42, 209.
- **The Rich Get Richer:** In 2000, the "richest 1 percent" had the same amount of after-tax income as the poorest 40% (2.8 million Americans with the same after-tax income as the poorest 112 million), and the gap between those groups has more than doubled between 1979 and 2000.
- **The Deficit Explodes:** President Bush inherited a \$5.6 trillion ten-year budget surplus, excluding Social Security. The new ten-year budget outlook is a record-setting \$3.8 trillion deficit.